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International

**ANNUAL
REPORT
1978**

**MTS
International Services Incorporated**

MTS International Services Incorporated

and subsidiary companies

HEAD OFFICE

**170 University Avenue, Suite 300
Toronto, Ontario M5H 3B3**

DIRECTORS

D. J. RICCI—Chairman
R. E. DALE, Q.C.
D. R. PATTERSON
M. PETERS

OFFICERS

D. J. RICCI —Chairman of the Board
D. R. PATTERSON—President
R. E. DALE, Q.C. —Secretary

AUDITORS

MacGillivray & Co.
390 Bay Street, Suite 2400
Toronto, Ontario
M5H 2R6

BANKER

Bank of Montreal
700 University Avenue
Toronto, Ontario
M5G 1Z5

COUNSEL

Woolley, Dale and Dingwall
Toronto-Dominion Centre
Box 65, Suite 3205
Toronto, Ontario
M5K 1E7

TRANSFER AGENT

Crown Trust Company
302 Bay Street
Toronto, Ontario
M5H 2P4

STOCK LISTING—Toronto Stock Exchange—Symbol M.I.S.

MTS International Services Incorporated

and subsidiary companies

REPORT TO SHAREHOLDERS

While sales for 1978 increased 21.3% operating costs increased only 17.7% resulting in Earnings Before Extraordinary Items of \$152,351 and Net Earnings of \$289,707 which compares most favourably to the Loss of \$9,817 for 1977. The most striking comparison to 1977 is the Net Earnings per share of 13.9¢ for 1978 compared to the Loss of .5¢ for 1977. Working Capital increased dramatically by 79.2% to \$688,066 or 33¢ per share.

The success we had during the past year is directly attributable to the dedication of our staff and I wish to take this opportunity to thank them for their efforts during the year.

D. J. Ricci

Chairman

COMPARATIVE HIGHLIGHTS

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Revenue from Services	\$7,027,957	\$5,791,519	\$6,508,526	\$8,570,283	\$9,745,865	\$7,661,261
Earnings (loss) before extraordinary items	\$ 152,351	(\$ 9,817)	(\$ 242,760)	\$ 109,595	\$ 196,734	\$ 83,578
—per share	7.3¢	(0.5¢)	(12¢)	5¢	9¢	4¢
Net Earnings (loss)	\$ 289,707	(\$ 9,817)	(\$ 265,068)	\$ 104,872	\$ 318,039	\$ 304,919
—per share	13.9¢	(0.5¢)	(13¢)	5¢	15¢	16¢
Working Capital (Deficit)	\$ 688,066	\$ 383,993	\$ 352,425	\$ 509,896	\$ 254,031	(\$ 32,453)
—per share	33.0¢	18.4¢	16.9¢	24.5¢	12.2¢	(1.7¢)
Average Number of Shares Outstanding	2,083,384	2,083,384	2,083,384	2,083,384	2,083,384	1,948,732

MTS International Services Incorporated

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CONSOLIDATED BALANCE SHEET

as at July 31, 1978

ASSETS

	<u>1978</u>	<u>1977</u>
CURRENT		
Cash	\$ 200,137	\$ 64,037
Accounts receivable	1,165,121	1,126,257
Note receivable	—	25,000
Prepaid expenses	<u>28,287</u>	<u>18,145</u>
	\$1,393,545	\$1,233,439
 FIXED		
Equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$63,875 (1977—\$60,242)	14,484	16,850
GOODWILL (Note 1d)	<u>144,000</u>	<u>156,000</u>
	<u>\$1,552,029</u>	<u>\$1,406,289</u>

ON BEHALF OF THE BOARD

"D. J. Ricci" Director _____ "R. E. Dale" Director

LIABILITIES

	<u>1978</u>	<u>1977</u>
CURRENT		
Bank indebtedness	\$ —	\$ 275,334
Accounts payable and accrued liabilities	671,114	507,672
Income taxes	34,365	66,440
	<u>\$ 705,479</u>	<u>\$ 849,446</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized
3,000,000 common shares, without par value

Issued and fully paid
2,083,384 common shares

	\$ 685,377	\$ 685,377
RETAINED EARNINGS (DEFICIT)	161,173	(128,534)
	<u>\$ 846,550</u>	<u>\$ 556,843</u>
	<u>\$1,552,029</u>	<u>\$1,406,289</u>

MTS International Services Incorporated

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CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

for the year ended — July 31, 1978

	<u>1978</u>	<u>1977</u>
REVENUE FROM SERVICES	\$7,027,957	\$5,791,519
OPERATING COSTS	<u>6,770,606</u>	<u>5,752,336</u>
Operating income	\$ 257,351	\$ 39,183
Provision for income taxes	<u>105,000</u>	<u>49,000</u>
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	\$ 152,351	(\$ 9,817)
Extraordinary items (Note 2)	<u>137,356</u>	<u>—</u>
NET EARNINGS (LOSS) (Note 3)	\$ 289,707	(\$ 9,817)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		
As originally reported	(\$ 128,534)	(\$ 192,717)
Prior period adjustment	<u>—</u>	<u>74,000</u>
As restated	<u>(\$ 128,534)</u>	<u>(\$ 118,717)</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ 161,173</u>	<u>(\$ 128,534)</u>
EARNINGS PER SHARE		
Average number of shares outstanding	2,083,384	2,083,384
Earnings (loss) before extraordinary items	7.3¢	(0.5¢)
Net earnings (loss)	13.9¢	(0.5¢)

MTS International Services Incorporated

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION for the year ended — July 31, 1978

	<u>1978</u>	<u>1977</u>
SOURCE OF FUNDS		
Operations		
Earnings (loss) before extraordinary items	\$152,351	(\$ 9,817)
Expenses not requiring an outlay of funds —		
Amortization of goodwill	12,000	12,000
Depreciation	3,912	4,888
	\$168,263	\$ 7,071
Extraordinary items (Note 2)	137,356	—
Proceeds from note receivable	—	25,000
	\$305,619	\$ 32,071
 APPLICATION OF FUNDS		
Purchase of fixed assets	1,546	503
 INCREASE IN WORKING CAPITAL	\$304,073	\$ 31,568
Working capital, beginning of year	383,993	352,425
 WORKING CAPITAL, END OF YEAR	\$688,066	\$383,993

MTS International Services Incorporated

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at July 31, 1978

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

- (a) The consolidated financial statements include the accounts of MTS International Services Incorporated and all subsidiary companies.
- (b) Foreign currencies have been translated to Canadian Funds on the basis that balance sheet historic items have been translated at historic rates. All other items have been translated at year end rates. Unrealized exchange gains of \$20,034 are reflected in the Consolidated Statement of Earnings (1977 — \$22,963).
- (c) No provision has been recorded for withholding taxes which amount to approximately \$44,000 on undistributed earnings of foreign subsidiaries.
- (d) The Company follows the policy of amortizing goodwill over 15 years, at the rate of \$12,000 per annum, and the accumulated amortization to date is \$36,000 (1977 — \$24,000).

NOTE 2: EXTRAORDINARY ITEMS

	<u>1978</u>	<u>1977</u>
Reduction of income taxes arising from carry forward of prior years' losses	\$ 89,356	\$ —
Adjustment to reflect the final disposition of liabilities of a former foreign subsidiary	48,000	—
	<u>\$137,356</u>	<u>\$ —</u>

NOTE 3: NET EARNINGS

In previous years the company had set up an accrual in regards to potential liabilities arising from negotiated contracts. Subsequent events have indicated that this accrual is not now required, and in accordance with the recommendations of the CICA handbook, this item has been brought into income in the current year. This has had the effect of increasing earnings before extraordinary items by \$27,707 (1.3¢ per share), extraordinary items by \$27,000 (1.3¢ per share) and net earnings by \$54,707 (2.6¢ per share).

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NOTE 4: CONTINGENT LIABILITIES

The Company may have an undetermined potential liability estimated not to exceed \$89,000 arising from previously negotiated contracts (see Note 3 above). In the opinion of management no direct liability exists. In addition certain parent company charges to a foreign subsidiary in the years 1973 to 1977 may not be allowed for income tax purposes. The potential tax liability in this regard has been estimated not to exceed \$76,500.

NOTE 5: INCOME TAXES

In certain subsidiary companies losses of \$240,000, expiring in 1981 and 1982, remain deductible in determining income taxes payable in future years. The tax benefit which is dependent on the future profitability of these companies will be reflected in earnings when realized.

NOTE 6: STATUTORY INFORMATION

The aggregate direct remuneration of the directors and senior officers of the Company as defined by The Business Corporations Act (Ontario) is as follows:

	<u>1978</u>	<u>1977</u>
Directors' fees	\$ 3,300	\$ 3,500
Senior officers' remuneration	<u>194,404</u>	<u>176,800</u>
	<u>\$197,704</u>	<u>\$180,300</u>

MTS International Services Incorporated

and subsidiary companies

AUDITORS' REPORT

To the Shareholders of

MTS International Services Incorporated
and subsidiary companies:

We have examined the consolidated balance sheet of MTS International Services Incorporated as at July 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of MTS International Services Incorporated and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at July 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MacGILLIVRAY & CO.
Chartered Accountants

Toronto, Ontario.
December 28, 1978



International

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MTS International Services Incorporated